

Message Text

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ACTION NEA-10

INFO OCT-01 ISO-00 SP-02 USIA-06 AID-05 EB-07 NSC-05

CIEP-01 TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00

COME-00 FRB-03 INR-07 NSAE-00 XMB-02 OPIC-03 LAB-04

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TAGS: ECON, IS

SUBJECT: SIGNS OF RECOVERY IN ISRAEL'S ECONOMY

1. BEGIN SUMMARY. THE DECLINE IN ISRAEL'S ECONOMIC ACTIVITY, EVIDENT IN 1974 AND BEGINNING OF 1975, CEASED ABOUT MID-1975 AND TURNED UPWARD IN SECOND HALF OF YEAR. SIGNS OF ECONOMIC RECOVERY ARE STRONGEST IN EXPORTS, INDUSTRIAL PRODUCTION, TOURISM AND PRIVATE CONSUMPTION. STIMULATION HAS BEEN PROVIDED THROUGH GOI'S TAX REFORM, COST-OF-LIVING ALLOWANCE PAYMENTS, AND EXPORT INCENTIVIES. END SUMMARY.

2. EXPORT DATA FOR JANUARY-MARCH, 1976 SHOW 19 PERCENT INCREASE OVER SAME PERIOD OF PREVIOUS YEAR. WHILE GOI FORECAST IS FOR 15 PERCENT RISE IN EXPORTS IN 1976, ECONOMIC RECOVERY IN U.S. AND EUROPE SHOULD PERMIT EXPORTS TO EXCEED THAT TARGET.

3. ISRAEL'S TOURIST INDUSTRY IS ENJOYING WHAT WILL PROBABLY BE A RECORD APRIL. HOTELS AND AIRPLANES ARE BOOKED TO CAPACITY. TOURISM INCOME FOR 1976 IS OFFICIALLY PROJECTED UP BY 15 PERCENT TO \$280 MILLION AND MINISTER OF TOURISM ESTIMATES NUMBER OF TOURISTS

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ARRIVING UP BY 19 PERCENT. BECAUSE OF DISPARITY BETWEEN

OFFICIAL AND BLACK MARKET RATES OF EXCHANGE, A SIGNIFICANT PART OF TOURISM REVENUE HAS NOT BEEN OFFICIALLY RECORDED IN LAST SEVERAL YEARS. HOWEVER, AS OF MAY 1 GOI WILL INSTITUTE NEW SYSTEM WHEREIN TOURISTS WILL HAVE TO PAY 28 PERCENT EXTRA FOR HOTEL SERVICES IF THEY PAY IN ISRAELI POUNDS. THIS SHOULD REDUCE USE OF BLACK MARKET TO BENEFIT OF OFFICIAL TOURISM REVENUES.

4. WHILE PRIVATE CONSUMPTION DECLINED IN FIRST HALF OF 1975, PRIMARILY BECAUSE OF RESTRAINTS ON CONSUMER IMPORTS, IT RECOVERED IN SECOND HALF AND APPEARS TO BE CONTINUING TO GROW IN 1976. CONSUMPTION IS STIMULATED BY AWARENESS THAT POLICY OF CREEPING DEVALUATIONS CAUSES IMPORTED GOODS TO BECOME INCREASINGLY EXPENSIVE. THEREFORE, ISRAELI CONSUMERS TEND TO BUY NOW RATHER THAN LATER.

5. MUCH OF 1974-75 DECLINE IN ECONOMIC ACTIVITY OCCURRED IN CONSTRUCTION SECTOR, ESPECIALLY RESIDENTIAL CONSTRUCTION. HOWEVER, SINCE POPULATION INCREASE IN 1975 WAS 30 PERCENT LESS THAN 1971-74 AVERAGE, NOT AS MUCH RESIDENTIAL BUILDING WAS NECESSARY. DESPITE CONTINUED DROP IN BUILDING ACTIVITY, TOTAL INVESTMENT IN 1975 ROSE BY EIGHT PERCENT IN REAL TERMS.

6. UNEMPLOYMENT IS ESTIMATED TO HAVE INCREASED FROM 3.0 TO 3.2 PERCENT IN 1975, FAR BELOW THE 4 OR 4.5 PERCENT WHICH MOST ISRAELI ECONOMISTS AGREE REPRESENTS FULL EMPLOYMENT. NUMBER OF PEOPLE EMPLOYED INCREASED SLIGHTLY DURING YEAR. WHILE EMPLOYMENT IN PRIVATE SECTOR DECREASED, EMPLOYMENT IN PUBLIC SECTOR INCREASED ALMOST PROPORTIONATELY. MOREOVER, AVERAGE NUMBER OF UNFILLED JOB VACANCIES HAS BEEN RUNNING AT ABOUT 8,000 FOR LAST SIX MONTHS, ALMOST DOUBLE NUMBER OF UNSUCCESSFUL JOB SEEKERS REGISTERED WITH LABOR EXCHANGES.

7. IN SUM, A GRADUAL UPTURN OF GENERAL ECONOMIC ACTIVITY SEEMS DEFINITELY UNDERWAY. INFLATION, HOWEVER, WILL LIKELY EXCEED PRESENT FORECAST OF 32 PERCENT FOR THIS YEAR; WHILE CURRENT ACCOUNT DEFICIT IN BALANCE OF PAYMENTS, EVEN IF SOMEWHAT REDUCED FROM LAST YEAR, LIMITED OFFICIAL USE

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WILL ONCE AGAIN HAVE PLACE OF HONOR AMONG COUNTRY'S ECONOMIC PROBLEMS. A MILDLY ENCOURAGING NOTE REGARDING FOREIGN DEBT IS THAT MINISTRY OF FINANCE EXPECTS TO REDUCE SHARPLY ITS SHORT TERM BORROWING THIS YEAR. MINISTER RABINOWITZ REPORTED THIS WEEK THAT IN CONTRAST TO LAST YEAR WHEN ISRAEL'S SHORT TERM DEBT ROSE FROM \$600 MILLION TO \$900 MILLION, HE ANTICIPATES HAVING TO BORROW ONLY \$100 MILLION MORE IN SHORT TERM

MARKET THIS YEAR. HE ADDED THAT IMPROVED SITUATION
PERMITTED HIM TO DECLINE OFFER OF \$70 MILLION LOAN
FROM DAVID ROCKEFELLER LAST MONTH.
TOON

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